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E.O. 12958: N/A

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SUBJECT: BRAZIL: THE ENERGY MINISTRY'S INTERNATIONAL AGENDA

REFS: (A) Brasilia 1437, (B) Brasilia 0775, (C) Brasilia 1239

11. (SBU) SUMMARY. In a May 27 meeting, the Special Advisor to the Brazilian Minister of Mines and Energy, Rubem Barbosa, spoke to Brasilia EconOffs regarding some of the issues on the ministry's international agenda. Barbosa voiced both concern and a "wait and see" attitude about the impact that Bolivia's instability may have on Brazil's natural gas supply. He considered Argentina an "unreliable" supplier of natural gas, and opined that the troubled US-Venezuela relationship has led to improved Brazil-Venezuela relations. He considers GOB engagement with Chavez, especially in the energy sector, as key. Barbosa said the GOB is still considering a possible roadshow to promote upcoming investments opportunities in the energy sector (such as the Seventh Round of petroleum blocks and the electricity energy auctions), but these plans have been shelved for now. In light of Petrobras' continued increases in oil production, Barbosa expressed hope that Brazil may achieve its goal of oil self-sufficiency as early as December 2005. End Summary.

Natural Gas Supply: Bolivia vs. Argentina

12. (SBU) In a May 27 meeting, Special Advisor to the Minister of Mines and Energy, Rubem Antonio Correa Barbosa, told Brasilia EconOffs that the GOB is "worried" about the reliability of its natural gas supply from Bolivia, but it will have to make the best of the situation as Brazil is dependent on Bolivia for the short-term. Despite Brazil's discovery of large natural gas reserves in the Santos Basin, he estimated that the soonest Brazil could replace Bolivian gas would be by the end of 2008, but more likely 2009. Putting the best face on a bad situation, Barbosa expressed admiration that La Paz has continued to honor its gas contracts with Brazil despite Bolivia's serious internal turmoil.

13. (SBU) Barbosa confirmed that Bolivian officials were in Brasilia the weekend of May 21-22 to discuss natural gas issues. He said the GOB message was very clear on two points: the GOB is not planning to leave Bolivia, but it will also not invest any more money under the current conditions. Noting that Petrobras had already invested US\$1.5 billion in Bolivia, about 15% of that country's GDP, he opined that Bolivia needed Brazil just as much as Brazil needed Bolivia. Still, while Brasilia has pursued regional energy cooperation and sought to support Bolivia during this difficult time, he said the Bolivians had reached the point of asking too much. He summarized the MME policy towards Bolivia's natural gas supply as "wait and see."

14. (SBU) If the gas supply from Bolivia decreased and prices soared, Barbosa admitted that Brazil would face a serious problem. However, he did not think that such a situation would lead to electricity shortages akin to the 2001 energy crisis. He noted that new hydro projects were being built and the country's national transmission network allowed authorities to transfer electricity where it was needed. (This latter point is one of the key reasons why the drought in Southern Brazil earlier this year (Ref B) has not led to electricity brownouts/blackouts.) In general, Barbosa saw Brazil as still only a "modest" consumer of natural gas, adding that it will take time and more investments for the sector to grow. Although he considered it good that initiatives like natural gas use by cars were moving forward, he admitted that the automobile sector was only complementary; real growth in consumption would require industry use of natural gas.

15. (SBU) Finally, Barbosa characterized Argentina as an "unreliable" supplier of natural gas. Because of increased consumption in Argentina, he said, Buenos Aires had reneged on commitments to sell gas to Brazil. And while there have been discussions of connecting the Bolivia gas pipeline to Argentina and of constructing a pipeline that runs all the way to the Brazilian Northeast, he considered these ideas to be only paper dreams at this point.

Chavez: Bad for US Relations, Good for Brazil

16. (SBU) Barbosa noted that while Venezuela has historically always looked first to the US, that dynamic has changed with Chavez in power, observing that this change has been good for Brazil-Venezuela relations. He said that Venezuela now feels more isolated and that Chavez is very much behind regional integration, primarily in the energy sector. Despite Chavez's "defects," Barbosa (strictly protect) said, increased regional cooperation, including Petrosur (Ref A), could bear fruit. Barbosa considers Venezuela a stable energy supplier and that there could be more exchanges of energy between the two countries, noting that the extreme north of Brazil already buys energy from Venezuela.

Hit the Road? Outreach to Energy Industry

17. (SBU) During World Bank and IMF meetings in Washington in April, the Minister of Mines and Energy, Dilma Rousseff, discussed with private sector officials the idea of an energy "roadshow" to tout upcoming investment opportunities in Brazil. Barbosa noted that the three places floated for the roadshow were New York City, Washington DC, and somewhere in Texas (probably Houston). The MME was planning the trip primarily to promote the Seventh Round Auctions of Petroleum blocks (scheduled for October 2005), he continued, but would also consider including the electric energy auctions (likely to take place towards the end of 2005, see Ref C) if the timing was right. The MME had originally planned to do the roadshow by the end of June, but Barbosa considered that unlikely. He said that the roadshow idea in general has been put on hold because of the Minister's busy schedule and the earliest it could be held was September. A Council of the Americas invitation to host such a presentation still stands, he added.

18. (SBU) In the meantime, Rousseff, Barbosa, and the MME Secretary of Petroleum participated in an energy sector

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conference in La Jolla, California sponsored by the Institute of the Americas. The energy ministers from Chile and Colombia were also there, as well as the Secretary of Energy from Mexico and many other government representatives from Latin America. On the Sunday afternoon before the conference, Barbosa said Minister Rousseff met with private sector representatives from CERA (an energy sector consulting firm), El Paso (a private energy company with investments in Brazil and an on-going dispute with Petrobras), Schlumberger (an international oilfield services company), Shell, and Exxon to discuss investment possibilities and doing business issues.

Oil Self-Sufficiency Expected Soon

19. (SBU) Barbosa reiterated Brazil's long-standing goal of achieving oil self-sufficiency, and noted that Petrobras' continued increases in production may make that goal a reality sooner than later. On May 12, Petrobras pumped 1,819,604 barrels, surpassing its previous one-day production record. Although the official goal is to reach self-sufficiency during 2006, Barbosa said he would not be surprised if Brazil met its goal as early as December 2005. Barbosa observed that it had taken years of hard work for Brazil to reach that one-day (i.e., May 12) of "self-sufficiency" (in the sense that its oil production 100% met its consumption). Indeed, Petrobras' monthly production has been picking up lately. In May, Petrobras' average monthly production was 1,729,000 barrels per day, a record-breaking amount and a 21.1% increase from May 2004. Although Brazil does not possess the known oil resources of neighboring countries such as Argentina, Colombia, and Venezuela, Barbosa opined that successful investment -- not just in exploration and production, but in conservation (i.e., ethanol) as well -- had helped Brazil reduce its dependence on imports.

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